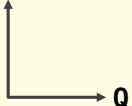


TOPIC: VARIABLE COSTS

♦ **Variable Costs** include raw materials, sales commissions, and hourly wages.

	When activity increases...	Equation	Graph
Total Variable Costs		$Y = bX$	
Average Variable Costs		$Y = \frac{bX}{X}$	

Y : Cost being measured b : Constant X : Activity Level

EXAMPLE

Tylor's Tickets' cleaning costs are their only variable cost. They estimate their cleaning cost to be \$0.75 per customer. Calculate Tylor's total variable cost for each possible quantity given below.

Sales per Month	Total Variable Cost
2000 tickets	
2500 tickets	
3000 tickets	

PRACTICE

If a company's costs are all variable costs, which of the following quantities will result in the lowest average variable cost?

- a) 5,000 units
- b) 10,000 units
- c) 15,000 units
- d) All the above will result in the same average variable cost